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PRIORITY

FOREIGN SERVICE DESPATCH

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FROM : AMEMBASSY. GUATEMALA

DESP. NO. 26

TO : THE DEPARTMENT OF STATE, WASHINGTON.

Action Assigned to

Action Taken

July 9, 1953
DATE

F790004-1229

JUL 11 1953

Date of Action

Action Office Symbol

Name of Officer

18 For Dept. Use Only	ACTION	DEPT.
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	RECD JUL 12	INFO OTHER AG COM FRB LAB TR XMB ARMY NAVY AIR OSD CIA

SUBJECT: WEEKA NO. 28 - ECONOMIC SECTION

Direction to DC/R

DECLASSIFICATION DATE 12-6-78
PER CHANGE - OFFICE ARA
EADRC EOI CASE NO. 740332

Central Files

SECTION II

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In a major move to implement President AREENZ's economic development program, the Guatemalan Government signed a $4,800,000 contract with the Morrison-Knudsen Co. of Central America for the construction of the Atlantic Coast port of Santo Tomás near Puerto Barrios. During the week the basic legislation for the agrarian reform program was completed with the passage by Congress and the signature by the President of the Organic Law of the National Agrarian Bank. Sr. J. Roberto FANJUL, Minister of Economy and Labor, announced that the Government would now undertake the industrialization of Guatemala and on July 8 the dormant National Economic Council was re-convened to formulate plans.

Economic Development

A major step in the Government's four-year economic development program announced in November 1952 (WEEKA No. 45) was the signing on July 2 of a contract with a Central American subsidiary of Morrison-Knudsen Co. of San Francisco for the construction of the Atlantic Coast port of Santo Tomás near Puerto Barrios. The port is to be the eastern terminus of the Atlantic Highway. It is intended by the Guatemalan Government to free the country from dependence on the International Railway docks at Puerto Barrios.

The contract calls for completion of the docks and buildings in 24 months at a cost of $4,800,000. The Guatemalan Government has reportedly earmarked foreign

GELarsen:dm
REPORTER
(7/9/53)

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exchange reserves in this amount in the United States as a guarantee of payment, and the Company likewise has posted a performance bond. The project is to be financed by internal development bonds purchased by the Bank of Guatemala. On July 7 the Guatemalan Congress declared the project to be one of public necessity which will insure to it certain priorities and immunities.

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Representatives of Morrison-Knudsen told this Mission they were satisfied with the contract. They said that it would not require Congressional approval because the project had been declared of public necessity. Col. Anselmo GETELLA, former head of the National Farms Liquidation Commission (WEEKA No. 2), has been appointed Government inspector of construction and has assured the Company that it will have a free hand with labor and that he will take care of any Communists who try to interfere.

In deciding to construct a new port with public funds the Government chose not to follow the International Bank Mission recommendation to negotiate with the International Railways of Central America (IRCA) for the construction and operation of additional docks by private capital. The Arbenz Government is obviously in no mood to embark on any joint undertaking with the IRCA, which owns and operates the Puerto Barrios docks.

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Industrial Development

Sr. J. Roberto Fanjul, Minister of Economy, announced that the Government would now turn its attention to industrial development, the third phase of the Administration's economic development program, (the first being agrarian reform and the second the four-year public works program). The National Economic Council was re-convened on July 8, after about two years of inactivity, to formulate a plan of action. Prior to this meeting, the press said that interested sectors of the national economy would be consulted but later reported that the July 8 session was attended only by members of the Cabinet and Government agencies.

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An industrialization program will probably involve further protection for national industry in the form of import restrictions or tariff increases which may lead to the denunciation or requests for the re-negotiation of trade agreements. Shortly after taking office in April 1952 Sr. Fanjul privately expressed the view that revision of the United States-Guatemala Trade Agreement was necessary to carry out his industrialization program.

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National Agrarian Bank

The basic agrarian reform legislation was completed this week with the passage by Congress and the signature by President Arbenz of the Organic Law of the National Agrarian Bank (BAN) (WEEKA No. 8), a new type of financial institution for Guatemala. The National Mortgage Bank, a Government agency, has been furnishing nominal credits to beneficiaries of the Agrarian Reform Law but has not been equipped to meet the requirements of agrarian reform. The initial $5,000,000 capital for the BAN was provided in the $20,000,000 public works bond issue authorized by Congress in March 1953.

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Leftist influence in the operations of the BAN was insured by a provision in the Organic Law giving the Communist-dominated labor confederation CGTG and the Communist-oriented small farmers and farm workers federation CNCG one seat each on the Board of Directors. Their representatives are to serve at the pleasure of the organizations nominating them and hence may be removed at any time if their actions are displeasing to their principals.

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Rudolf E. Schoenfeld

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